

How to Measure the Value of Financial Advice

Admin User · February 7, 2026

Dana Anspach explains how to quantify the value of financial planning using household balance sheets and other key metrics.

Robert Powell: How might you go about measuring the value of financial advice and financial planning? To talk with me about that is Dana Anspach from Sensible Money. Dana, welcome.

Dana Anspach: Hi Bob, glad to be here.

Powell: Glad to have you here. It'll be helpful to have you explain to our viewers how someone might measure the value of financial planning and financial advice. Where to begin?

Anspach: My goodness, you know, I started in this business in 1995 and it was common if you said you're a financial planner, the instant response is, "What should I be investing in now?" Or people would turn the discussion to the economy or interest rates or particular stock performance, but that's investment advice. And there's so much that financial planners do that adds value beyond the investment selections and investment performance.

I always found it frustrating that the primary way we were measured was by the performance of the investments. What rate of return did they earn? And if I gave them advice that saved them money on taxes or over time helped them have a couple hundred thousand dollars more in net worth, well, those things don't show up on a performance report. And so it's long been a challenge in our industry.

There's been some other papers, Vanguard put one out a few years ago, Morningstar put a paper out called Alpha Beta Gamma, all trying to illustrate how do you demonstrate the value that financial planning can add separate from the investment advice? And so a few years back in 2021, I set out a paper really to accomplish the same thing, to try to help illustrate there is real value and we can actually quantify it.

Powell: So where to begin with that then?

Anspach: Well, it starts with a concept called the household balance sheet. So think of it as a set of metrics, right? With investments, it's pretty easy. We have a metric, your rate of return. And there's even some questions about how that metric can be used. There's different versions of it and so on, but we won't go down that rabbit hole.

But for financial planning, you need a set of metrics. And so we started with a standard set of assumptions to use in the financial plan. And then you adjust one variable that has nothing to do with the portfolio, such as when do you claim Social Security? Or do you take advantage of the tax credit from the healthcare tax credit? Or do you withdraw from the IRA before using your taxable assets? Or do you add Roth conversions?

So those are all quantifiable decisions and we can stack them and basically say, okay, if I did X, what were the results over time? If I did Y, what were the results? If I did Z, what were the results? And isolate these decisions to see which ones actually added the most value.

And it's really interesting because some will add value in different ways. And it comes back to what's most important to you. So there could be one set of decisions where if your goal was to maximize wealth to leave for your heirs, a certain set of decisions might work better. If your goal was to maximize your current spending, there's a different set of decisions that might work better. And there's a way to quantify that in a set of metrics that can be used to illustrate those trade-offs.

Powell: So you mentioned the household balance sheet, maybe define that.

Anspach: Yes, good point. I'm using lingo. What exactly does that mean? So we're all familiar with a balance sheet or most of us are, right? You list your assets, you list your liabilities, and then you get down to your net worth. And that's like a snapshot in time, but it doesn't take into account the future cash flows and future expenses that you will have.

So as you're getting near retirement, you can create what's called a household balance sheet that says, okay, here's the amount of financial assets I have, here's my real estate equity, but I also have maybe Social Security that's gonna pay out to me starting in a few years, or an annuity or a pension. And those things have value even though they're an income stream.

So you can use a present value formula. It's a formula that says, okay, if I were to claim Social Security at 62, 66, 70 for example, how much would I have to have in the bank earning what rate of return to deliver that same amount of cash? So you can take a cash flow stream and turn it into how much you would need on your balance sheet to deliver

that cash flow stream.

You can do the same with your expenses. So if I wanna spend 80,000 a year on living expenses and 20,000 a year on travel, and then I have healthcare and then I have taxes. So when I take all those expenses over let's say a 30 year lifetime, I can turn those into a present value number and say, I would need to have 3.2 million earning at least 3.5%, for example, to deliver that stream of cash flows.

So that's all a household balance sheet does is it's taking not only your current assets and liabilities, but all your future cash flow sources and expenses and bringing them all into one concise view called a household balance sheet. And ultimately, like any balance sheet, you either have more assets than liabilities or you don't. If you do, likely your retirement objectives are gonna be well-funded. And if your assets don't match up to your liabilities, well, you can look at ways to reduce the liability side of the balance sheet, spend less, or you can look to work longer that could increase the asset size of your balance sheet.

It's a tool that helps you see as a starting point where you're at. But the cool thing is you can start off with a metric and then it can change one variable when you claim Social Security. Did that improve that metric? And in that particular metric, we might call it a household fundedness ratio. So, what is your asset ratio to liability ratio over your lifetime? And that metric either improves with each decision or it doesn't. And so now you have a quantifiable way to go through and say, okay, when I made this set of decisions, is it improving that metric or not?

Powell: And just for background, the household balance sheet is in some ways very similar to what public and private pension plans do to assess whether they're overfunded or underfunded or fully funded.

Anspach: Exactly, for those lucky enough to still have a pension, not so many people anymore, but you probably get an annual statement, a fundedness statement. I don't know if they use that exact term, but it's usually about a two page statement that tells you the state of your pension plan. And it uses the exact same math process. In that pension plan, they know they have to pay out X amount of cash flow over the lifetimes of all of the participants, and they have this amount of money and this assumed rate of return, what's called a discount rate. So every year they're calculating what's that asset to future liability ratio.

Powell: And the other thing I think it's worth mentioning, Dana, is a lot of times people might be exposed to something called a Monte Carlo analysis to determine whether their assets will be sufficient to fully pay for their desired standard of living. But that's different from a household balance sheet.

Anspach: It is different. I think Monte Carlo analysis can be useful. So what it is, is it's stress testing the investment results over a variety of market outcomes. And we know that you can do exactly the same thing and use a solid, well-balanced investment approach and have vastly different outcomes depending on the particular 20 or 30 years in history that you retire into. And so the Monte Carlo is testing for that to say, well, even if we get the worst one third of market returns, would your plan still work? Will it be okay?

And there can be some usefulness to that as a big picture measure, but it's not so useful when it comes to quantifying the specific financial planning decisions. So very useful for testing investment outcomes, but when it comes to, well, should I delay Social Security? Should I use Roth conversions? Should I withdraw from my IRA before my other account or should I realize capital gains? It doesn't, it's not very useful in measuring the outcome of those types of decisions.

Powell: Yes. So I know we have to maybe describe some more jargon around the household balance sheet that you use. Is that a good place to turn next?

Anspach: Yes, so, you know, the household balance sheet is just one of many metrics that you can use. So there's another metric that we use. Basically, it's your fundedness ratio that's just looking at your financial capital relative to the withdrawals it needs to support. And that's narrower because, you know, when we're looking at a household balance sheet, it includes Social Security and real estate, rental income, and everything. The financial capital ratio is just saying, this is what I have in my savings and investments, financial savings and investments. And these are the withdrawals I expect to take just from that piece. And is that a positive ratio? So that's much like how pension plans do it.

But there's other measures of success. One we look at is, well, you know, when all is said and done and we pass away one day, what's what we call our liquidation value? So after taxes and after accounting for inflation in present value terms, did I quote, die with more or less money? Now, the reality is if a set of decisions meant you had more money at the end, well, you don't have to wait all the way to the end, right? It also means, okay, well, I could have more spending along the way and still end up in the same place. So that's a measure called liquidation value.

And the other measure we like is something called coverage ratio. So all the research shows, people are afraid of running out of money one day and definitely cognitive decline is real. I've seen it with many of my clients. And so as we get into our late seventies, the more guaranteed income sources you have relative to your spending, the more secure your financial position. Now that has nothing to do with total income or net worth or fundedness. It's just how much of my life's expenses are covered by guaranteed sources.

So if I were to be a victim of elder fraud or cognitive decline kicked in and, you know, I remember a story of someone who, you know, went off suddenly buying, he bought like two new trucks and a boat before his adult children were like, whoa, dad, like, you know, what's going on? And so these things happen and so if that should happen, right, the higher your coverage ratio, the more secure your position.

And the point isn't to remember all these metrics, it's really to know that there are other measures of success outside of a rate of return. And there are ways to measure the impact of specific financial planning decisions and see if they add value to your plan.

Powell: So you have a hypothetical example to walk us through by chance?

Anspach: Yes, I think you're going to link probably to a paper I have. It's got a complex name, demonstrating adviser gamma with a household balance sheet. It's a bit technical, but it does walk through a case study. For those people who like to dig deep and look at all the numbers, this would be the paper for you. It basically looks at scenarios where you started with a household and then they claim Social Security at 62, at full retirement age, and at 70. Then they added in the use of the Affordable Care Act healthcare tax credits. They changed their withdrawal order to do some light Roth conversions and IRA withdrawals. The last scenario, there are six total scenarios, is they do aggressive Roth conversions.

For each one, it shows the specific metrics. The bottom line is from the beginning to the end, you can demonstrate that you could add over \$360,000 of value, present value to this household's balance sheet through this series of decisions. You can start to see which decisions add the most value. As an interesting example, in this particular case study, if you start down this path and look at the different decisions you could make, initially, when they claim Social Security later, they actually have a little bit less money at the end. So you might go, that's a bad decision. But that decision works in combination with a set of other decisions.

By delaying Social Security, it allows you to take more withdrawals from IRA accounts at a lower tax rate or do Roth conversions. So then you can see as you start to stack these withdrawal orders and Roth conversions onto the delay Social Security decision, that's where you can see some pretty big improvements in the outcome. But if you were to do the decisions differently, for example, claim Social Security at 62 and then try Roth conversions, it's not gonna have the same outcome. The decisions are designed in many cases to work together.

The point of the paper is to say, there is a measurement tool and a set of metrics you can use so that you can break these decisions apart and have meaningful conversations with

your client. In the paper, all of the scenarios that I go through, in the scenarios where they claim Social Security at 70, for example, they have a higher what we call coverage ratio later. This couple had over \$100,000 of Social Security if they delayed till 70. That brought more security to their plan. So that can be a conversation, right? You're in a more secure position because of this decision. In addition, it created an opportunity to withdraw money at some lower tax rates. So it actually added net worth to your household.

If you don't want to wait until you pass to extend that net worth along to the next generation, well, it would allow you to spend more along the way. The other thing that's in this paper is when you look at these six scenarios, in the very last scenario, we do aggressive Roth conversions. Although it shows the most value added, there's a break-even. That value doesn't really materialize for the household till like year 28, almost year 30 of their plan. So again, that's a conversation with the client. Sure, in academic terms, I could add this much value to your plan, but does that make sense? Maybe we should do lighter Roth conversions. That's one of the other illustrations that we ran. And that might make more sense, allow you to spend more along the way rather than just accumulating more worth that you're gonna pass along in 30 years.

Powell: Yes. As you're talking, I think I'm reminded that financial planning involves being aware of all the trade-offs that you may have as you're examining this strategy or tactic versus this strategy or tactic. And being aware of those trade-offs is certainly what's important about this process that seems to me that you're describing.

Anspach: Yes, it is absolutely the trade-offs. As an example, we have many clients where we were doing Roth conversions. There's one in particular that comes to mind right now. But their daughter was starting a veterinarian practice and they really wanted to be able to help. And then they thought about it and they looked at their spending level relative to their assets was very reasonable. And they thought, why are we going to pass along millions of dollars to our daughter later? She's starting this practice now. She needs money. And so we talked about really what the Roth conversions were in their plan was gifting to the future generation. And so instead, maybe we just take some of that money out of the IRA and gift it now.

Sure, on paper, it shows you have less net worth later. But you got the enjoyment of passing along some of that worth, being a part of your daughter building her practice. So, you have to interpret the metrics into the meaningful life decisions and the family relationships and the things that are important to all of us.

Powell: Yes. And the other thing as you're talking, I think oftentimes advisers are challenged about the fees that they might charge. And if you have to rely on the notion

that you're going to outperform the market and that justifies your fee, this is a far better way to explain to a client perhaps that we're adding value by creating greater wealth through these planning tactics.

Anspach: Yes, and not only creating hopefully greater wealth, but more peace of mind and a way to navigate the ever-changing environment. So it's one thing to run a plan like in this paper, right? Okay, this is a static snapshot at this point of time, this set of decisions and here's how they would play out. But in reality, as we know, tax laws change and rules change and so as those things are updated, we have to re-navigate that set of decisions and say, okay, does this set of decisions still make sense and does it still add value in the same way?

Maybe initially we thought in 2025, we were gonna do \$80,000 of Roth conversions, but we get to 2025 and something else has come up and it should only be 60,000 or maybe it should be 120,000. And so there's a process in place and that process continuously adds value and that value you're right it doesn't show up on a performance report but it is adding not only hopefully meaningful wealth to the client but that peace of mind of thinking I don't have to worry about this stuff I can set a meeting with my planner they're going to run the scenarios they're going to be able to dialogue with me about what's most important to me and about these trade-offs. And then as a household, single or married, you can make a decision that's appropriate for you.

Powell: Yes. In the past couple of weeks or so, I've had conversations with people that have asked me about advisers and who can I find who will generate the highest rate of return, et cetera. And I tell these folks that those are table stakes. I wouldn't necessarily choose an adviser based on their ability to outperform the market. I'd rather find an adviser who can help me with these finer points. And I'm curious, maybe you can explain how it is that you explain that to a client, communicate the value of this.

Anspach: Yes, you know, when we initially do an introductory meeting, we walk through our process so people can see, we break our planning process into a series of strategy meetings with defined topics that we cover at each meeting. And as we walk through that process, it becomes, I'm not gonna say obvious because it's technical stuff, but we try not to talk in technical terms, but it becomes clear that we have a process, right? Here's how we measure these things. We're not just dumping you into a software program and giving you a 98% confidence rate.

And so we often hear people who go through our introductory meetings say, wow, I've interviewed three, in one case is five different planning firms and no one talks about it the way that you do. So I don't know exactly what we're doing differently or what we're talking

about. Some of the things you and I have been talking about the trade-offs and how to measure those trade-offs and what the process looks like in a way that people can see there's a defined process. It's going to be repeated each and every year. They know what we're doing for them. It's not guesswork. They know we're doing this set of things and looking at the set of metrics each and every year.

Powell: Yes. And the other thing, as you're speaking, I'm reminded of is quite frankly, how labor intensive the process is. It's not cookie cutter. It's not off the shelf. It's not shrink wrapped. It's labor intensive.

Anspach: It is labor intensive. I mean, I remember one person who had they had like three pensions and they each had Social Security and between those different combinations of what age they could collect each thing, we ran 50 iterations of their plan. Now this was a very analytical thinker. And so he wanted to see every single thing quantified. And so we did it. And you know, it is very labor intensive.

Now, most people would be overwhelmed by that many versions. And we've done so many of them that we usually know what kind of things will move the needle depending on that person's goals and values. So we don't have to show everybody 50 versions of their plan. You'd be like, my gosh, please no. We can usually hone in on, here's the final recommendation. Here's why in a nutshell. And then, for the people that like all of the details, well, they can kind of back into, now let's, you know, what other iterations do you want to see? But yes, it is time intensive, I'll agree.

Powell: Yes. And they, I'm fond of also saying that it's a, in your world, it's a row and column exercise, right? It's a spreadsheet filled with rows and columns and cells.

Anspach: It is because you're projecting, you know, an outcome over time, right? And that's what you need to see. I've described it as like a movie instead of a photograph, right? So you need to see how this movie will play out now at age 60 or 65. And what's that movie gonna look like in the final scene, really? You know, am I still gonna have enough no matter where I might be at that point in my life? And so creating that movie in a meaningful way, that's really what good financial planning is.

Powell: Well, that strikes me as good a point as any to wrap up, Dana, but feel free to reemphasize or cover something we didn't cover.

Anspach: I think we covered a lot and hopefully anyone watching has a better understanding of really what financial planners do far beyond just the investment side of things.
